KAYE SCHOLER LLP

The McPherson Building
901 Fifteenth Street, NW
Washington, DC 20005
202 682-3500
Fax 202 682-3580
www.kayescholer.com

Donald B. Cameron 202 682-3630
dcameron@kayescholer.com

November 16, 2001

VIA E-MAIL

Ms. Gloria Blue
Executive Secretary
Trade Policy Staff Committee
Office of the United States Trade Representative
600 17th Street, NW
Washington, DC 20508

Re: Steel; Section 201 Safeguard Investigation; Product Exclusion Request for Certain Hot-Rolled Steel

Dear Ms. Blue:

In response to Andrew Stephens' email dated November 15, 2001, we are resubmitting the exclusion request we filed on behalf of Pohang Iron & Steel Co. Ltd. (POSCO) on November 13, 2001.

We have removed brackets from pages 3 and 4 of the request. The now-unbracketed information relates to the specifications of the product for which we are requesting an exclusion. This information now is public.

We have emailed copies of this letter and the attached public version of the exclusion request to Roger Schagrin, Schagrin Associates; Joe Dorn, King & Spalding; Robert Lighthizer, Skadden, Arps, Slate, Meagher & Flom; and Alan Wm. Wolff, Dewey Ballantine.

13030307.DOC

Please contact Donald B. Cameron (202) 682-3630 if you have questions regarding this submission.

Sincerely,

Donald B. Cameron
Julie C. Mendoza
David S. Christy, Jr.
Paul McGarr, Trade Analyst
Counsel to Pohang Iron & Steel Co., Ltd.

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PUBLIC VERSION

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Ms. Gloria Blue
Executive Secretary
Trade Policy Staff Committee
Office of the United States Trade Representative
600 17th Street, NW
Washington, DC 20508

Re: Steel; Section 201 Safeguard Investigation; Product Exclusion Request for Certain Hot-Rolled Steel

Dear Ms. Blue:

EXECUTIVE SUMMARY

On behalf of Pohang Iron & Steel Co., Ltd. (POSCO) and in response to your notice published October 26, 2001 (66 Fed. Reg. 54321-24), we ask that POSCO's imports to the United States of hot-rolled steel that are captively consumed by USS-POSCO Industries (UPI) be excluded from any remedy recommendation in the ongoing Section 201 investigation of steel. The exemption requested is for a specific product--*i.e.*, imports of hot rolled steel for re-rolling--and we also propose that end-user certifications could be required to ensure that these and similar imports are used exclusively for the production of cold rolled steel, galvanized steel and tin plate in the United States.

Please note that this letter contains confidential business information. We have designated this information as confidential by placing brackets ([ ]) around it. We have submitted a non-confidential version of this letter (with bracketed text summarized) as well.

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PUBLIC VERISON

Pursuant to 15 C.F.R. 2003.6, we request that the TPSC exempt from public inspection the business confidential information contained in this letter. The business confidential information in this letter refers to the production and supply of certain products and their proprietary product specifications. This information is not otherwise available to the public. The disclosure of any of this business confidential information would cause substantial commercial harm to the business interests and competitive position of POSCO.

EXCLUSION REQUEST

UPI, located in Pittsburg, California, is a joint venture formed in 1986 between POSCO and a predecessor of United States Steel LLC (U.S. Steel). Using hot-rolled coil supplied by POSCO and U.S. Steel, UPI produces approximately 1.5 million tons annually of cold-rolled sheet, galvanized sheet and tin mill products. UPI is a major manufacturer and supplier of these products in the western part of the United States. UPI took control of a mill on the verge of extinction, modernized its cold-rolling, galvanizing and tin mill product operations and brought them up to world-class quality and efficiency standards. The quality and efficiency of UPI's operations could only be accomplished by replacing former hot-rolled steel supplies from antiquated production facilities with captively supplied hot bands of the correct and essential grade, dimension, quality and volume from POSCO and U.S. Steel.

UPI, as is typical of U.S. producers of cold-rolled steel products, depends on a captive supply of hot-rolled coil to remain viable. Due to the fundamental economics of cold-rolled steel product production, UPI has an irreducible need for a fully integrated, captive hot band supply. Only U.S. Steel and POSCO have the technical know-how and the financial incentive to supply UPI irrespective of market conditions because of their ownership of the joint venture. UPI cannot meet its hot-rolled coil needs with material purchased on the open market from U.S. suppliers.[1] Unrelated hot-rolled coil producers, with which UPI competes in downstream products such as cold-rolled steel, would discontinue supplying UPI when market conditions are strong, as there is a greater return in producing higher value-added downstream products. Moreover, most U.S. producers are located east of the Rockies, and prohibitively high transportation costs prevent cost-effective supply from such producers. The only two producers within a reasonable distance of UPI, Geneva Steel and CSI, do not have the capability to produce hot-rolled coil of the dimensions and qualities that UPI requires.

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[1] *See* UPI Prehearing Brief on Injury, submitted to the International Trade Commission (ITC), at Exhibit A, Affadavit of Robert R. Smith, President, UPI. The non-confidential version of the Smith Affadavit is attached to this letter for your convenience.

Captive supply of hot-rolled coil has been fundamental to UPI since its inception. Under the terms of the joint venture agreement, U.S. Steel and POSCO collaborate and decide upon who will provide UPI with its hot-rolled coil requirements. Since the beginning of the joint venture, the supply of hot-rolled coil to UPI has been shared roughly 50/50 between POSCO and U.S. Steel. During that time, annual imports of hot-rolled coil from POSCO have been approximately 750,000 metric tons with some, but never very significant, variation from year to year. U.S. Steel supplies an equivalent amount of steel, in product specifications that complement the supply from POSCO. [

discussion of product and supply

]

UPI's entire venture depends on its ability to import three types of hot-rolled steel from Korea. These imports consist of three specific types of hot rolled steel, each customized to meet the Pittsburg, California mill's stringent production requirements for its three products: cold-rolled steel, galvanized steel and tin mill products. Each of these three types of hot band has a very specific chemical composition, a high pound-per-inch-of-width (PIW) and exacting tolerances, specifications that UPI is not able to obtain domestically. The precise specifications of each of the three types of hot-rolled steel is described below.

The following information pertains to UPI's captively supplied hot-rolled coil imported from POSCO:

(a) Hot-rolled sheet in coil, imported under HTS 7208.38.0030 and 7208.39.0030.

(b) Description of the product:
The chemical composition shall be (%):
C 0.02~0.05wt%
Mn 0.20~0.30wt%
Si 0.02wt%
P 0.020wt%
S 0.020wt%
Max. nitrogen content: 0.0050 wt%
Total Aluminum: 0.005-0.030wt%

The categories shall be:

Category 1 Usage: Re-rolling Cold-rolled steel
PIW: 1000lbs. or greater

Width: between 24" and 56"
Gauge: greater than 0.08" but not more than 0.18"
Max. gauge variation compared to nominal gauge: +/-0.002"

Category 2 Usage: Re-rolling Corrosion-resistant steel
PIW: 1000lbs. or greater
Width: between 24" and 56"
Gauge: greater than 0.10" but not more than 0.18"
Max. gauge variation compared to nominal gauge: +/-2%

Category 3 Usage: Input for re-rolling Tin Plate
PIW: 1000lbs. or greater
Width: between 24" and 56"
Gauge: greater than 0.08" but not more than 0.10"
Max. gauge variation compared to nominal gauge: +/-0.002"

(c) Basis for requesting exclusion: Insufficient quantities of the specific grades are available domestically, and they are the essential raw material to UPI's U.S. production of higher value-added downstream steel products covered by the investigation.

(d) Names and locations of U.S. and foreign producers: Several U.S. and foreign companies produce hot-rolled steel in coils, and are listed in the ITC Staff Report, but none is capable of supplying the product required by UPI.

(e) Total U.S. consumption: U.S. consumption of hot-rolled steel for each year 1996 to 2001, as reported in the ITC Staff Report, is as follows:

1996—68,500,901 short tons;
1997—71,294,237 short tons;
1998—74,887,545 short tons;
1999—73,368,419 short tons; and
2001 (Jan.-June)—33,915,816 short tons.

(f) Total U.S. production: U.S. production of hot-rolled steel for each year 1996 to 2001, as reported by the ITC, is as follows:

1996—215,081,170 short tons (122,959,351 short tons of which was captively consumed);
1997—237,938,440 short tons (135,865,663 short tons of which was captively consumed);
1998—235,526,650 short tons (131,160,130 short tons of which was

captively consumed);
1999—271,801,025 short tons (135,840,987 short tons of which was captively consumed);
2000—267,876,458 short tons (145,764,066 short tons of which was captively consumed);
2001 (Jan.-June)—132,256,834 short tons (72,141,799 short tons of which was captively consumed).

(g) Identity of U.S. produced substitutes, if any: U.S. producers produce hot-rolled steel in coils; but, as described above, they cannot supply all of the specific types of hot-rolled steel coil required for UPI to run its mill.

These imports enter the United States under only two of the many tariff classifications that constitute hot-rolled steel products: 7208.38.0030 and 7208.39.0030. Each entry of the excluded hot-rolled steel products from Korea would be accompanied by a certification that the product met the specification requirements of the exclusion and would be used in UPI's production of cold-rolled steel, galvanized steel or tin mill products. Such procedures should be available to any of those steel producers that use hot-rolled as feedstock so long as they certify that it is used only for internal consumption. As such, the product exclusion would be easily administrable by U.S. Customs.

POSCO is the only producer and exporter of hot-rolled coil in Korea and, as reported to the ITC, [ ] of POSCO's exports of hot-rolled coil to the United States are captively supplied to UPI for its internal consumption. Moreover, while there have been some small year-to-year variations in UPI's volume of imports from POSCO, the level of UPI's imports of hot-rolled coil from POSCO has not changed since the early days of the joint venture. Thus, POSCO's imports of hot-rolled coil do not compete in the U.S. merchant market or with U.S. producers of hot-rolled steel products. The uniqueness of this situation has repeatedly been recognized and accommodated by the U.S. government and in the application of U.S. trade laws:

- During the negotiations to extend the voluntary restraint agreements in 1989, the United States recognized the importance of POSCO's supply of hot-rolled coil to UPI by reserving 700,000 metric tons of hot-rolled coil quota for POSCO.

- In the 1993 AD and CVD investigations of hot-rolled steel products, the ITC de-cumulated imports of hot-rolled coil from POSCO (*i.e.*, Korea) from imports of the seven other countries involved in the investigations because the ITC determined that imports of hot-rolled coil from POSCO did not compete with other imports of hot-rolled steel products or with other U.S. domestic production.

As such, imports of hot-rolled coil from Korea did not injure the U.S. industry. The U.S. Court of International Trade sustained this decision.

- In the 1998 AD and CVD investigations of hot-rolled steel products brought by domestic producers against imports from Japan, Russia and Brazil, imports from Korea were not included in the petition. In responding to an ITC questionnaire, POSCO again confirmed that virtually all of its hot-rolled coil exported to the United States is imported by UPI for its captive consumption. Imports of hot-rolled coil from Korea were similarly excluded from the AD and CVD investigations of hot-rolled steel products currently in progress against 11 other countries.

The reasons underlying the previous exclusions of UPI's captively consumed imports of hot-rolled steel from POSCO remain relevant today. Data available from the ITC confirm that UPI's imports have remained stable and, in fact, have declined slightly over the ITC's five-year period of investigation. UPI's imports are not related to serious injury to the U.S. hot-rolled steel industry, which cannot replace POSCO to supply UPI's essential hot-rolled coil requirements.

In conclusion, because UPI's captively consumed imports of hot-rolled coil from POSCO cannot be sourced from U.S. producers, no U.S. producer would benefit from restrictions on such imports. However, the costs of imposing import restrictions on UPI's supply of its essential raw material would be devastating to UPI and its highly skilled workforce. The survival of the POSCO-USS venture would be imperiled. For the reasons set forth above, these products should be excluded from the scope of any import restrictions that may be imposed as a result of the pending Section 201 safeguards investigation.

Sincerely,

Donald B. Cameron
Julie C. Mendoza
David S. Christy, Jr.
Paul McGarr, Trade Analyst
Counsel to Pohang Iron & Steel Co., Ltd.

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Attachment

AFFIDAVIT OF ROBERT R. SMITH,

PRESIDENT, USS-POSCO INDUSTRIES

City of Pittsburg

ss:

State of California

Robert R. Smith, being duly sworn, deposes and says:

1. My name is Robert R. Smith. I am President of USS-POSCO Industries (UPI), a producer of cold-rolled, galvanized, and tin mill products in Pittsburg, California.

2. I began my career in the steel industry in 1969 with U.S. Steel as a management trainee and progressed through numerous positions of increasing responsibility prior to my appointment as Vice President -- Administration & Finance of UPI in 1990. I served in this position until 1997 when I was appointed Vice President – Commercial. In January 1998, I was promoted to my current position as President of UPI.

3. I have personal knowledge of the facts set forth in this affidavit.

I. UPI'S HISTORY AND OPERATIONS

4. UPI is a 50/50 joint venture of United States Steel LLC (U.S. Steel) and Pohang Iron & Steel Co., Ltd. of Korea (POSCO). The venture owns and operates a single plant in Pittsburg, California. This plant was formerly wholly owned by U.S. Steel and, during the 1930s and '40s, supplied steel for large public works projects such as the San Francisco-Oakland Bay Bridge. In the 1950s and 60s, the Pittsburg plant grew with

the addition of pickle lines, tandem cold-rolling mills, electrolytic tinning lines, continuous coating lines and a continuous annealing line.

5. By the early 1980s, it became apparent that the Pittsburg plant had become outdated and noncompetitive. Because of its antiquated condition, U.S. Steel began closing down a number of facilities in the plant, such as the pipe and wire rope mills, and reduced the number of workers employed there from approximately 5,000 in the mid-1960s to 1,200 in 1985. As a result of this downturn, senior management at U.S. Steel, as well as independent consultants retained to study the plant's situation, recognized that modernization was the only alternative to closing the Pittsburg plant entirely.

6. In 1986, through the UPI Partnership Agreement, USX Corporation, the corporate predecessor of U.S. Steel, and POSCO formed UPI, a 50/50 partnership, to modernize and operate the Pittsburg plant, and bring its products up to globally competitive standards. The partners initially invested over $450 million, primarily in two new installations at Pittsburg -- a computer controlled, continuous pickle line coupled with a six-high five-stand tandem cold mill (the "PLTCM"), and a continuous annealing and temper rolling line (the "KMCAL"). UPI has continued to invest in new technologies and equipment. For example, [

]

7. UPI has achieved world-class status and has broken into markets for a number of high quality cold-rolled sheet and tin mill products from which it was once excluded. For example, UPI now produces cold-rolled sheet for office furniture, computer cabinets, light fixtures, and construction hardware (such as doorknobs, hinges, and trim) – markets for which the surface tolerances and finish of the product must be closely controlled. UPI has also become a major supplier of tin products for the packaging of agricultural and processed foods.[1] All are market segments that UPI, prior to its modernization, was unable to serve effectively because the quality of its finished product did not fully meet customer specifications.

II. UPI'S SUCCESS IS CONTINGENT ON THE CONTINUED AND SECURE SUPPLY OF HIGH QUALITY, CONTINUOUSLY CAST HOT-ROLLED FEEDSTOCK FROM POSCO

8. In order to continue as a "world class" supplier of cold-rolled steel, UPI relies on a consistent and secure annual supply of approximately [ ] tons of

[1] Two other traditional markets for high quality cold-rolled sheet are automotive panels and home appliances. Because such goods are manufactured primarily on the East Coast, however, UPI does not serve these market segments.

continuous cast, large pound-per-inch-of-width (PIW), high quality hot-rolled feedstock such as the type supplied by POSCO. Without this guaranteed supply, UPI's state-of-the-art equipment will not perform to its fullest capabilities and UPI would face diminishing customer confidence in its abilities to produce a reliable product.

9. Hot bands vary significantly across a wide range of characteristics. For example, hot-rolled sheet may be made either from ingots or from continuous cast steel (the latter of which has greater chemical consistency and can be held to a more precise profile); may differ in chemical composition (with different amounts, e.g., of carbon, nitrogen, aluminum, and other elements that affect critical performance parameters); and may vary significantly in size (e.g., width, gauge, and PIW), shape (e.g., flatness), surface quality, and ductility (i.e., formability). Cold-rolling facilities require consistent and assured supplies of the highest quality hot bands to produce finished products meeting critical customer profile and performance specifications, while hot bands of distinctly different chemical and physical characteristics and quality typically are sold for such applications as pipe and tube.

10. There are three critical reasons why UPI needs a consistent supply of hot bands like those supplied from POSCO: to ensure efficient operation of its highly specialized facilities; to produce high quality products capable of competing with those imported from the Pacific Rim; and to ensure the long-term availability of inputs that are necessary to sustain its operations and to achieve and maintain credibility in the marketplace. Each of these points is discussed more fully below.

11. It is critical that UPI continues to have a consistent and guaranteed supply of continuous cast, high PIW, high quality hot bands -- such as those supplied by

POSCO -- for the company to produce finished sheet and tin products efficiently and competitively.

12. It is a fundamental principle of industrial economics that variations in factory inputs require adjustments to the production line and, often, testing or re-qualification of the finished product. Such activities necessarily reduce the producer's efficiency and increase its costs, particularly in high-volume processes, like UPI's, which operate under very strict product specifications.

13. More specifically, the capacity and optimal running speeds of UPI's facilities were designed on the basic premise that the plant would utilize 1,250 PIW hot bands for sheet products and 1,000 PIW hot bands for tin products. PIW dictates the amount of time that must be devoted to the welding together of input coils for continuous rolling operations. If coil size were reduced by half, productivity on UPI's PLTCM would be reduced by [ ] percent. UPI's coil handling facilities were designed and built on the basis of this PIW calculation. The effective operating capacity, efficiency, and profitability of UPI's plant consequently depend on the availability of high PIW hot bands as supplied by POSCO's Kwangyang Works.

14. Further, batch annealing -- the traditional method of annealing in the industry -- imparts relatively high ductility to the steel that cannot be imparted during UPI's continuous annealing process. As a result, production of various products in UPI's facilities requires special steel, such as [

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15. Thus, a consistent supply of continuously cast, high PIW, high quality hot bands such as those captively supplied by POSCO is essential for UPI to avoid unnecessary downtime on the mill (i.e., to achieve the operating efficiencies for which the plant was designed) and to ensure that UPI can manufacture its full line of products.

16. Continuous cast, high PIW, high quality hot bands -- such as those supplied by POSCO -- are essential to the production of high quality cold-rolled finished products to the exacting specifications required by UPI's customers. UPI's continuous process permits the manufacture of a product that is virtually blemish-free, metallurgically clean, dead flat, and on gauge. Such restrictive tolerances on finished cold bands can be achieved only by using hot bands meeting equally restrictive specifications. UPI's ability to achieve these tolerances has been the key to our success in expanding our sales and market share in tin and high-end cold-rolled product areas. Accordingly, UPI has committed to its customers that it will supply products with gauge variations of no more than [ ] for sheet products and of no more than [ ] for tin products; in order to meet these commitments, UPI's hot band inputs can have gauge variances of no more than [ ]. Similarly, UPI's hot band inputs must meet a camber tolerance of not more than [ ] in contrast to the ASTM standard of not more than 1" per 20', and a width tolerance of not more than [ ], which is more restrictive than the industry norm. UPI's customers also require high-PIW coils (particularly for tin mill products) in order to minimize the number of welds in their own feedstock. Finally, UPI's supply of hot bands must also meet very stringent

specifications across a wide range of characteristics relating, for example, to chemical composition, cleanliness, dimension, surface quality, and shape characteristics.

17. Without access to hot bands having the proper qualities, UPI could be forced to withdraw entirely from certain markets in which it has been most successful. For example, UPI simply cannot make tin product with the degree of ductility necessary to permit the drawing of cans and oil filters unless [

]

18. UPI must have a dedicated source that can guarantee a consistent supply of hot bands meeting its specifications. Finally, and most importantly, UPI needs a dedicated source of hot bands because it cannot afford the risk that a steady supply of continuous cast, high PIW, high quality hot bands might be curtailed. Two critical factors make it extremely difficult for UPI to rely on noncaptive sources of hot bands.

19. First, many U.S. hot band producers are unwilling to make substantial, long-term supply commitments to unaffiliated producers of cold-rolled sheet. Most producers of hot-rolled sheet are integrated companies that also produce cold-rolled sheet and strip, which has a much higher value added (and therefore is more profitable) than hot-rolled steel. When market forces create incentives to do so, these companies will divert hot-rolled steel from their unrelated customers to increased production of cold-rolled steel in their own integrated mills. Similarly, in the event of a steel shortage,

strike, or other market dislocations characteristic of the steel industry, such producers are likely to curtail supplies to unaffiliated producers (particularly producers with which they compete in downstream products). If UPI were forced to rely on supplies from unaffiliated producers, the obvious risks of supply disruptions would severely damage customer confidence in, and reliance on, UPI. Such a serious erosion in UPI's customer base itself could threaten the viability of UPI.

20. UPI cannot mitigate the supply uncertainties inherent in reliance on unaffiliated suppliers by establishing numerous sources of hot bands. Indeed, companies in a variety of industries, including the U.S. steel industry, are investing billions of dollars toward a single goal: reducing variability. Customers are doing the same by choosing one or two suppliers and requiring those suppliers to qualify their products prior to sale, a practice that is particularly prevalent in the high quality market segments served by UPI. Multiple sourcing, however, inherently leads to greater variability that undermines competitiveness and quality control.

21. Even if UPI could find multiple sources of hot bands meeting its specifications -- which is highly unlikely[2] -- multiple sourcing would require constant adjustments to the plant to accommodate inconsistent inputs. And even if these adjustments were technically feasible, the costly engineering and downtime required would severely damage UPI's efficiency. Most important, variable inputs would unavoidably yield inconsistencies in UPI's finished products. The inevitable result would be erosion of customer confidence in the product -- [

[2] See paras. 33-35 below.

]

22. Although much hot-rolled sheet is converted directly into end products such as pipe and tube rather than used in further rolling operations, these hot bands are generally of distinct specifications from the type of hot bands fed into cold-reduction mills. For example, since they are not typically used for products having critical "finish" surface and ductility requirements, they are unacceptable for use in cold-rolling operations. Thus, many hot bands are not an alternative source of supply for UPI.

23. The need for an integrated supply is not unique to UPI. In fact, in my experience, responsible steel executives would never enter into an agreement like the one creating UPI or invest money of that magnitude without assuring guaranteed long-term supply.

24. The essential and fundamental role of captive supply is evident from

[

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25. [

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26. UPI's only assured sources of high quality hot bands are U.S. Steel and POSCO. In order to ensure that UPI's hot band requirements were met, and that the facility would remain viable, U.S. Steel and POSCO agreed that both parents would supply hot band to UPI. Although the parents originally agreed that the No. 3 line at POSCO's Kwangyang Works would be the exclusive hot band supplier of UPI, the existence of the VRAs soon made this arrangement impractical. Consequently, since [

]

27. The parties intended, at the time they formed UPI, to effect a structural integration of the melt and hot-rolling facilities at Kwangyang with UPI's cold reduction facilities in Pittsburg. There is no reasonable basis on which this arrangement might be characterized merely as a long-term supply contract. Rather, the founding

charter of UPI establishes that the venture is not to utilize and, indeed, is to be completely isolated from, any market supplies of hot bands.

28. The integration of UPI's Pittsburg operations with the hot-rolling facilities at Kwangyang is not novel. It is common to cold-reduction operations throughout the world and reflects the critical fact that each producer of cold-rolled sheet requires a consistent and stable supply of hot bands meeting its mill and customer specifications if it is to remain viable. Without a guaranteed and consistent source of supply, a cold-reduction mill cannot run as it has been designed and calibrated to do, and variances in supply impose enormous downtime cost penalties for readjustment of the mill equipment and correction of the malfunctions. Similarly, frequent variances in supply (made inevitable by any sourcing of hot bands from multiple sources) make it impossible for the cold finisher to meet its own customers' specifications in a reliable and consistent manner, jeopardizing critical market relationships and the producer's reputation for product quality.

29. In short, the viability of a high quality cold-reduction facility is severely compromised, financially and commercially, if it is unable to rely on a captive supply for its hot band requirements.

30. Although U.S. Steel's role as a captive supplier of hot bands to UPI has developed since the formation of UPI, U.S. Steel [

]

31. In short, while UPI has [ ] of its hot bands from U.S. Steel, such supplies were not intended to substitute for the full integration of the Pittsburg and Kwangyang Works originally contemplated in the UPI Partnership Agreement. Although to date U.S. Steel [

]

32. An assured source of high quality hot bands is not available in the United States outside U.S. Steel. Even if it were feasible, from a business standpoint, to source hot bands from a non-integrated, unaffiliated producer, no such producer is currently capable of supplying to UPI all of the hot bands for which its plant was designed. For UPI, its two parent companies, POSCO and U.S. Steel, provide the required captive supply of hot band. No other producer, domestic or foreign, can step in to fill this vital role.

33. [

] The only two producers that, due to their proximity to UPI's facility, could deliver hot band to UPI without charging prohibitively high transportation costs are Geneva Steel and CSI.

[

]

34. **Similarly,** [

]

35. [

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36. Disruptions in our supplies of hot bands leading to lower utilization of our facilities could severely undermine UPI's financial viability. It is essential that UPI achieve consistently high operating rates in order to cover the very substantial fixed costs that the company and its parents incurred in modernizing the Pittsburg plant. Periodic idling of the Pittsburg facilities by interruptions in the timely delivery of hot bands easily could jeopardize the financial viability of the entire venture.

III. UPI'S IMPORTS OF HOT BANDS FROM KOREA DO NOT INJURE DOMESTIC PRODUCERS

37. UPI needs to continue importing hot band from POSCO simply because there is no viable U.S. merchant market for high quality hot-rolled sheet to be tapped. As noted above, hot bands that are suitable for cold reduction are produced in captive supply arrangements for affiliated cold-rolling facilities. UPI's imports from POSCO do not compete with such captive production, [

], and UPI cannot procure an acceptable, guaranteed supply of hot bands from an integrated, unaffiliated producer or from non-integrated, unaffiliated U.S. producers.

38. UPI's imports of POSCO hot bands also do not compete in the merchant market. [

]

39. Maintaining UPI's imports of POSCO hot bands is essential to UPI's ability to compete with foreign imports. If import restrictions are imposed on hot-rolled sheet from Korea, either UPI's costs will go up (because it must pay more for POSCO hot-rolled sheet) or, if the cost is prohibitive, UPI will be forced to source hot-rolled band

that does not meet the design specifications of its mill (leading to production inefficiencies, impairing the quality of its end products and creating risks of supply disruption that we believe will severely undermine our customers' confidence and willingness to place orders with us). In addition to the production inefficiencies that would result, we would quickly begin to lose some of our markets. Especially in tin products and high-end cold-rolled products, our customers would require us to requalify to be their suppliers. In all probability, we would not be able to meet the specifications or reliability requirements of many, if not all, of those customers. We would simply be taken off their approved supplier lists. Even where we could maintain quality and reliability levels with our customers, the costs, in line downtime and product quality assurance manhours, would be enormous. In a market where UPI must meet prevailing market prices, these scenarios would severely undermine its ability to compete.

40. In addition, if UPI cannot compete in the sale of cold-rolled sheet and tin products, it will be unable to continue its ongoing investment in the plant [

]

I have personal knowledge of the matters set forth in this Affidavit, and hereby swear and affirm that all statements made herein are true and complete to the best of my good faith, knowledge and belief.

USS-POSCO INDUSTRIES

By: _____
Robert R. Smith

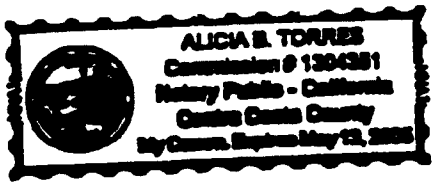
Title: President

Date: September 7, 2001

State of California, County of Contra Costa

On September 7, 2001, before me, Alicia B. Torres, Notary Public, personally appeared Robert R. Smith, personally known to me to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.



_____
Alicia B. Torres, Notary Public